3M Employees - What is Net Unrealized Appreciation (NUA)?

NUA allows the unique opportunity to receive capital gain treatment on a portion of your 3M stock. NUA is the increase in value of 3M stock held in your 3M VIP/401(k) plan. When the shares are sold, you pay taxes at a more favorable long-term capital gains rate on the appreciation in value of 3M stock rather than the typically higher ordinary income tax rates you have to pay on distributions paid directly from the 401(k).

Components of NUA

• Average cost basis is the value of what 3M paid for your shares. The cost basis is taxed at ordinary income tax rates when the shares are distributed from the 3M VIP plan. If you are under 59 ½, the cost basis is also subject to the 10% early withdrawal penalty, unless you separated from service and were at least age 55 or later at that time. Your basis can be found on your quarterly statement.

• Net Unrealized Appreciation is the increase in value of 3M stock held in your 3M VIP/401(k) plan. i.e., the difference between the average cost basis and the stock's market value at time of distribution. This difference is taxed at long-term capital gain rates when liquidated.

• Additional appreciation is the difference between the value of your 3M stock at time of distribution and the price you receive when you sell your 3M stock. This additional appreciation will also be taxed as long-term capital gains as long as the stock is held for at least 1 year prior to sale. If not, the additional appreciation is taxed as short-term capital gains.

Hypothetical Illustration

Market value of shares	$100,000	
3M stock basis	$ 30,000	
Net Unrealized Appreciation		$ 70,000

Assume a 24% federal income tax rate and a 15% capital gains rate. This is a 9% difference in tax rates. Thus, a Net Unrealized Appreciation of $70,000 x 9% = $**6,300 in tax savings.**

Conditions for NUA lump sum distribution:

A distribution will qualify as a lump-sum distribution in the following situations:

- a lump sum distribution of the entire 401(k) plan account must occur in the same calendar year.
- you must receive the 3M stock as an in-kind distribution

• the remaining balance of your 3M 401(k) can be rolled over to an IRA or taken as cash
• you must be either 59 ½, separating from service, or due to disability or death

Some things to consider before using NUA

- Tax brackets – What is your marginal tax rate compared to the long-term capital gain rate?
- 3M stock outlook
- 3M stock concentration
- Liquidity - Do you have cash to pay the tax on the cost basis of the stock?
- Legacy plan - For example, is an inherited IRA strategy superior to NUA for your situation?
- Time Horizon - When would you likely liquidate the 3M stock if you decided to use the NUA Strategy
- Early retirement - Liquidating 3M stock using the NUA technique can provide funds to bridge your budget needs until you turn 59 ½.
- Cost basis - The NUA technique is more attractive with a lower cost basis

The Landmark Group can provide you with a comprehensive and detailed analysis for you and your tax advisor that will:

- Analyze liquidity needs, 3M stock concentration, tax rates, financial objectives, time horizon, and legacy plan.
- Determine tax implications of moving company stock into a taxable account versus an IRA account
- Estimate net proceeds expected from NUA and IRA rollover strategies.

The NUA strategy is not for everyone. Our NUA analysis mentioned above can help you determine if this strategy is right for you.

For more information about the advantages and disadvantages of using the NUA technique in the context of your particular financial situation, contact the Landmark Group of Thrivent Financial.